The Food Development Centre

A Special Operating Agency of
Manitoba Agriculture and Food

Annual Report
2000-2001

In 2000/2001 FDC's Activities facilitated:

The Creation of 29 New Jobs,

The Development of 14 new food products,

An expected contribution of $3,158,100 in GDP and $287,100 in provincial taxes over the next 5 years

Minister of Agriculture
and Food

Room 165
Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

His Honour
The Honourable Peter M. Liba
Lieutenant Governor of Manitoba
235 Legislative Building
Winnipeg MB R3C OV8

Your Honour:

As Minister Responsible, I have the privilege of presenting, for the information of Your Honour, the Annual Report of the Food Development Centre for the fiscal year ended March 31, 2001.

Sincerely,

Rosann Wowchuk
Minister

Manitoba

Deputy Minister of
Agriculture and Food

Room 159
Legislative Building
Winnipeg, Manitoba CANADA
R3C 0V8
(204) 945-3734

The Honourable Rosann Wowchuk
Minister of Agriculture & Food
165 Legislative Building
Winnipeg, MB R3C OV8

Dear Minister:

I have the privilege of presenting to you the Annual Report of the Food Development Centre (FDC) covering the year ended March 31, 2001. It has been an honour for me to serve as Chairman of the Advisory Board for the Food Development Centre.

With the assistance of that Board, management and staff have successfully assisted Manitoba's agri-food industry to contribute an additional $3,158,100 in GDP and $287,100 in provincial taxes to the Province over the next 5 years.

Yours sincerely,

Don Zasada
Deputy Minister

FOOD DEVELOPMENT CENTRE

Bringing ideas to market

Don Zasada
Deputy Minister of Agriculture and Food
Chair, Advisory Board
Food Development Centre

Dear Mr. Zasada:

It is my pleasure to present the Annual Report of the Food Development Centre (FDC), for the year ended March 31, 2001. This report outlines the accomplishments of the Food Development Centre that have been achieved in fulfilling the mission to facilitate the creation and expansion of agri-food businesses to generate wealth for Manitoba and Manitobans.

The management and staff are particularly proud of the following achievements, which clearly indicate FDC's past success and benchmark FDC's potential to facilitate future economic development:

- *the the creation of growth by **29** new employment opportunities;*
- *the expected contribution of **$3,158,100** in GDP and **$287,100** in provincial taxes over the next **5** years;*
- *the servicing of **35** projects;*
- *the development of **14** new food products;*
- *the addressing of **697** requests for information;*
- *the successful troubleshooting for **2** food processing companies;*
- *the presentation of **8** leading-edge technology training seminars;*
- *the training of **370** individuals at the leading-edge technology seminars*

We thank you for the ongoing support of both yourself and the department. We are proud of the success of our clients and of the role we have been able to play in the economic growth of Manitoba.

Yours sincerely,

Dave Donaghy
Chief Executive Officer

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A Special Operating Agency of Manitoba Agriculture and Food

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I. SEAMLESS SUCCESS

I-1 The Vision

As part of its long-term planning process, FDC worked with MAF to develop a strategy for client service that capitalizes on the strengths of both entities. Using the Visions of each entity as a guide:

"Manitoba's agriculture and food sector will be more profitable and competitive through expanded diversification and adding value, a growing livestock sector, and greater market orientation – all within a sustainable agriculture framework."

Vision – Destination 2010 – Manitoba Agriculture and Food

"Increased Employment and wealth through enhanced development of Manitoba as a global source of high quality food products."

Vision – Food Development Centre – 5-Year Strategic Plan

a dynamic strategy was created that provides industry with the crucial support it needs to survive in the changing global market. The resulting "seamless approach" involves a complete range of services, including idea conceptualisation, financing, product/process development, production and marketing stages. Although the approach is still in its early stages, industry has already reaped the benefits of this strategy. This annual report highlights two examples of this "Seamless Success."

"Having the support of FDC and MAF has made our journey to success all that much more easier"

Shaun Crew, Hemp Oil

I-2 Prairie Lane Saskatoons

Prairie Lane Saskatoons of Petersfield, Manitoba has greatly benefited from this "Seamless Approach."

Prairie Lane Saskatoons (PLS) was established in 1991 to produce top quality saskatoon products for the hospitality industry.

"My wife and I drew on our many years of agronomic and business experience to found this new company based on providing a high level of service, with the best products, delivered in a timely manner"

John and Kim Ritz
Prairie Lane Saskatoons

Working together, FDC and MAF have assisted this client with every aspect of the development and marketing process:

- ✓ FDC worked with Prairie Lanes Saskatoon (PLS) to develop value added products from saskatoon berries. One of the results is a delicious market ready saskatoon fruit topping that can be used on cereal, ice cream, yoghurt, puddings, waffles, toast and cake and in salads, crepes, blintzes, perogies and more.

- ✓ Under the Manitoba Agri-Ventures Initiatives Program (MAVI). PLS received cost-shared assistance to develop professional materials to investigate market opportunities for Manitoba saskatoon products and to develop market contacts. This assistance supplied by MAF included:

  - the design and development of a trade show display and promotional material.
  - tariff rate determination
  - country-specific labelling.
  - selection of appropriate trade show events. The company also participated with MAF in the Salon International de l'Alimentation (SIAL) Paris show in the fall of 2000 as well as SIAL Montreal in 2001.
  - determining marketing initiatives to explore opportunities in the United States and Europe for their saskatoon berry topping.

- ✓ FDC has assisted PLS in the sourcing of production equipment and PLS is now producing its product out of FDC's pilot plant.

The product is currently marketed locally and in British Columbia. During picking season this company employs 100 people in addition to the 3 employees who will be working at FDC.

A broker in England is interested in carrying the product but would like it to be reformulated with fructose instead of sugar (for tariff reasons) and without preservatives. FDC is currently working with PLS to incorporate this requirement and to develop other products for international markets.

"A lot of co -operation on both sides;
a very good working relationship"

John and Kim Ritz
Prairie Lane Saskatoons

I-3 Genetically Modified Organisms (GMO)

In February 2001, a large potato processor located in Manitoba was given false results from the quality testing provided to it by a private laboratory. If these results had been acted upon, producers within Manitoba would immediately have lost their contracts with the processor. The client approached MAF's Soils and Crops Branch who analyzed the problem and determined that FDC had the necessary resources to provide a solution. Working together MAF and FDC recognized the need for immediate assistance and with minimal investment and the operating flexibility provided by FDC's Special Operating Agency structure, were able to develop and provide the required services within the tight time frame.

...And the producers are once again selling potatoes to the processing plant.

I-4 Summary

These are two of the many examples of the success that Manitoba has experienced since FDC became a part of MAF. FDC projects a compounding increase in these success stories as industry reaps the benefits of the leading edge technology available to Manitoba in a Canadian Food Inspection Agency (CFIA) registered plant as proposed in its strategic plan.

Saskatoon berry farmer pushes onto world stage

Once the farm boy has seen Paris, will he ever be the same?

Manitoba farmer John Ritz hopes not.

The saskatoon berry producer recently attended the SIAL show in Paris in late October, the world's largest international food exhibition.

With 5,000 exhibitors from 90 countries displaying everything from bubblegum to olive oil, Ritz had one of the truly unique products at the show.

"Saskatoons are coming of age. It's an emerging industry and the European market is our focus."

Earlier this year he traveled to England and collected orders for his saskatoons that are processed as a fancy fruit topping. They are packaged in decorative 270 millilitre glass jars and in larger pails for restaurants.

Ritz and his wife Kim want their Prairie Lane Saskatoons brand name recognized on the international stage.

But first they have to do some consumer education.

As people approached his display at the Canadian pavilion, there were two questions.

"What are saskatoons?"

"Are they genetically altered?"

The questions gave the affable Ritz the opportunity he needed. He regaled visitors with stories of buffalo, pemmican making and Indians on the plains.

To top off the western lore, he gave visitors heaping spoonfuls of plump, tasty berries cooked in their own juice.

As people complimented him on his product, Ritz was able to explain to tasters from China, Portugal and the Middle East that this prairie berry is actually from the apple family.

He can also promise those conscious about food safety that they are eating a natural product with no genetically modified organisms. This is a real boon in the sensitive European market.

There was one unexpected obstacle. Since no one in Europe knows what saskatoons are, they did not know what tariff level to apply. Ritz said a new rate was created.

Overall, he found the show promising. Potential clients might not understand what the prairies or saskatoons are, but as educated consumers and food brokers they were familiar with Canada and the quality of food it produces.

Homework to do

"The show is the preliminary and then you come home and put the puzzle together."

There was a lot of interest in buying his frozen berries, but Ritz has opted to continue processing on the farm instead of shipping out another raw food commodity from Canada.

An additional bonus from his post at the show was meeting Canadians interested in fruit toppings for the retail trade.

"I had to go all the way to France to meet someone from next door."

Prairie Lane Farm was established in 1991 to produce saskatoons for the hospitality industry. It sells the berries as a fruit topping for ice cream, cakes, toast or waffles. Berries are handpicked.

They are then frozen and processed at the farm.

— DUCKWORTH

Visitors to the food show had the opportunity to pick up saskatoon berry topping produced by John Ritz of Prairie Lane Farms.

SECTION II. FDC – Operating Principles

What is FDC? – FDC is a group of committed individuals trained and experienced in the food science and engineering fields, that operates in three service areas, Product and Process Development, Information and Educational Services. FDC's vision is *"increased employment and wealth through enhanced development of Manitoba as a global source of high quality foods."*

What is FDC's mission? - With the support of Manitoba Agriculture and Food (MAF), FDC's mission is *"to provide leadership in the creation, expansion and diversification of the agri-food industry through its industry networks and expertise in food processing."*

What does FDC value? – FDC values its role as a facilitator of economic development within the Province. Its goals are:

1. To provide up-to-date, unbiased technical information to the agri-food industry, with emphasis on leading-edge technologies in product and process development.
2. To provide education and training to industry through technical seminars and workshops.
3. To provide technical and federally accredited pilot plant services for the production of safe and wholesome food products.
4. To create awareness of value-added processing of agri-food commodities and promote the capabilities of the Food Development Centre.
5. To promote the creation of a seamless agri-food development process within Manitoba Agriculture and Food, from idea conceptualization to product marketing.
6. To ensure coordination and effective use of resources across the agri-food sector through liaising with industry, academia and government.

SECTION III. FDC's SUCCESS IS MANITOBA'S SUCCESS

III-1 Measuring Success

As part of its strategic planning process FDC evaluated the relevance of the measurements that had previously been used to determine its success. The traditional bottom-line break-even position of most special operating agencies does not accurately reflect successful activities in an environment where activities are directed at small, capital-restricted clients, nor does the idea of measuring quantities of output where finished client projects do not necessarily mean growth in the economy. So --- what does FDC do?

FDC facilitates the creation of employment opportunities and wealth within the Province of Manitoba. FDC makes an economic impact.

FDC contracted with the Manitoba Bureau of Statistics (MBS) to place a value on FDC's economic impact. MBS reviewed the operating results of 33 representative FDC clients (1999/2000), who reported that 37 new jobs were created with an associated increased annual revenue of $1.035 million. Recognizing that other factors also impacted on this economic development, 60% of the increased revenue ($602.0 thousand) and 40% of the new jobs (15) were attributed to the assistance provided by FDC. MBS also included the direct impacts of FDC's 1999/2000 operations and proposed investments in their evaluation. (For clarity of on-going reporting, the values per job created were converted to equivalents for each new job created.) From this analysis, MBS concluded:

- Each new job created as a result of FDC's activities will increase the Province's Gross Domestic Product at market price by **$19.8 thousand per year**.
- Each new job created as a result of FDC's activities will increase provincial tax revenue by **$1.8 thousand per year** (Local taxes will be increased by $0.7 thousand and federal taxes will be increased by $2.5 thousand).
- In 1999/2000, FDC's direct and indirect operations created **22** other direct and indirect/induced jobs and provincial tax revenues of **$241.0 thousand**.

FDC's proposed renovations and equipment acquisitions will directly create **82 person-years of employment and $777.0 thousand of provincial tax revenue, over two years**. **This investment will:**

1. **Enable FDC to provide industry with the tools it requires to attain and maintain a competitive position within the pressures of the rapidly growing global market.**
2. **Facilitate the creation of 335 new jobs during the period covered by the strategic**

plan, with an estimated 100 new jobs created each year thereafter.

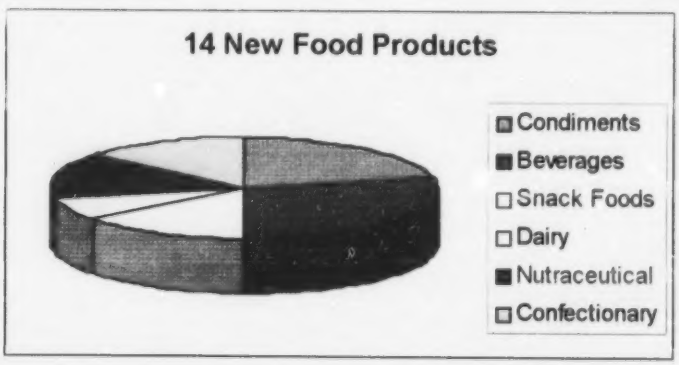
3. **Facilitate the contribution of $121.0 million to GDP and $17.0 million in provincial taxes to the Province during the 15-year life of the investment. It is clear that there is a great opportunity for the Province to invest in the future and to assist in the move to increase exports.**

III-2 2000/2001 Results

Although FDC received approval to develop its strategic plan it did not receive the funding required to hire consultants to complete certain areas of the plan. In its place, FDC realigned a portion of its resources from vital client activities to completing the development of the plan. This realignment impacted FDC's capabilities to reach its 2000/2001 performance targets. However, even with these constraints, FDC is proud to report the following significant results:

✓ *New Food Products*

FDC's technical staff facilitated the development of the following food products:



Of these 14 food products, 9 are presently being sold on the retail market.

✓ *New jobs*

FDC is pleased to report the following distribution of new employment opportunities created throughout Manitoba as a result of its activities:

Location	Jobs Created:
Winnipeg	21
Outside Winnipeg	8

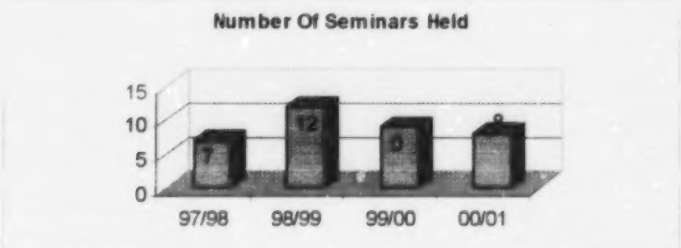
✓ *New/Expanded Businesses*

FDC facilitated and/or assisted in the following development or expansion of agri-food businesses within Manitoba:

Location	New/Expanded Businesses
Winnipeg	6
Outside Winnipeg	8

✓ *Educational Program*

FDC's technical expertise, its capability to forge strong partnerships and its ability to respond to industry needs are key factors in the success of FDC's educational program. This program is designed to address specific industry and regulatory requirements and to proactively introduce emerging trends and technology. During 2000/2001, FDC held 8 seminars attended by 378 participants.



✓ *FDC's Library*

The primary goal of the FDC Library is to provide an economic advantage to Manitoba innovators by providing them, and FDC staff on their behalf, with timely and reliable access to research and industry knowledge that is accurate, relevant, current and complete.

This requires an ongoing process of continuous improvement. For example during the year of 2000/2001 the librarian:

- became a member on the MAF Committee on Biotechnology and the MAF Committee on Nutraceuticals and Functional Foods in order to pool knowledge and resources in a cohesive formal group of specialists for the benefit of the Province and stakeholders in the field.

- developed a professional focus geared towards the agri-food research, technology and industry field, working closely with MAF staff in the Marketing and Farm Business Branch providing a seamless client service relationship between FDC and the various divisions of MAF.

- systematically provided University of Manitoba graduate students (Food Science) with exemptions in the provision of information services and resources, in order to provide financially unrestricted access to documented research in the fulfilment of academic requirements; this amounts to an intellectual investment in high calibre academic training that will bring exponential returns to the Province of Manitoba in the form of a new generation of highly trained individuals in the agri-food industry. It also exposes new graduates to FDC.

" Information is vital in the creation of wealth."

III-3 Economic Development Impact

Using the economic development model designed by the Manitoba Bureau of Statistics, FDC is proud to report, that as a result these activities, Manitoba is expected to realize:

A contribution of $3,158,100 in GDP and $287,100 in provincial taxes over the next five years.

SECTION IV. PARTNERSHIPS

FDC's widespread network of partners provides support to industry through joint initiatives on project funding, service delivery and educational programs. These are some of the partners that FDC collaborated with during 2000/2001:

✓ ***Manitoba Agriculture and Food***

In addition to the joint collaboration on client projects (previously mentioned), MAF has provided FDC with much needed support in many other operational areas such as:

- computer and program support,
- development of promotional materials,
- assistance in the preparation and presentation of submissions related to its business and strategic plan,
- identification and development of industry opportunities and management support.

✓ ***Manitoba Food Processors Association (MFPA)***

FDC continues to strengthen its partnership with MFPA and is pleased to report that during the fourth quarter the two parties agreed to share a joint Winnipeg office beginning in July 2001. This office will provide FDC with the Winnipeg presence that it needs, and will provide both entities with joint access to clients and industry opportunities.

✓ ***National Research Council of Canada (NRC)***

FDC's partnership with NRC and specifically with Vivian Sullivan, NRC's Industry Technology Advisor in Food, continues to enable research and growth in the industry. For example, FDC, with support from NRC-IRAP developed a hemp-based beverage for a Manitoba company; introduced supercritical fluid extraction technology for speciality oils; and evaluated inulin as a functional ingredient for bakery and beverage products.

✓ ***University of Manitoba***

FDC works closely with the University on client projects where the University completes the initial basic research. FDC utilizes the results of this basic research to carry out its applied research and technology transfer activities.

SECTION V. 2000/2001 BUSINESS PLAN

V-1 Performance Effectiveness

FDC's 2000/2001 Business plan objectives were predicated on FDC receiving approval to hire consultants to assist in the strategic planning process. As this approval was not received, FDC re-directed time from its existing staff to perform the review, evaluation and recommentations associated with the preparation of the plan. This reduced available time for client fee-for-service work, However, even under these constraints, FDC is able to report significant success in supporting Manitoba's value-added agri-food industry in 2000/2001.

2000/2001 Objectives:

✓ ***to provide a strong leadership role to Manitoba's agri-food industry as it faces the challenges of the millennium***

FDC continues to strengthen its leadership role to the Manitoba agri-food industry through partnership with MAF and NRC-IRAP. Through the proactive development of services, FDC has introduced new technologies to the industry. New functional ingredients (e.g. Inulin) have been researched and incorporated in new product developments such as cookies and fruit toppings.

✓ ***to promote the use of current and emerging technologies in food processing***

FDC introduced current and emerging technologies to increase industry's ability to incorporate competitive technology into its operations by:

- conducting 8 technical training seminars with an attendance of 378 participants;
- organizing a one-day work-shop to demonstrate the supercritical fluid extraction technology and its benefits to Manitoba firms. Fifteen people including processors and researchers from industry and academia attended the workshop. The workshop consisted of lectures on the principle and applications of the technology, and pilot plant demonstratons using locally grown oilseeds. As a result of the workshop, a local hemp processor is interested in investigating the use of the technology of oil extraction from hempnuts;
- providing vital technology transfer support to 697 requests. These activities increased industry ability to incorporate competitive technology into its operations; and,
- implementing the testing for genetically-modified contents in potatoes.

✓ ***to provide leading edge expertise to the agri-food industry within Manitoba***

FDC's ongoing staff development (refer to Appendix C), its extensive system of networking with industry and academia throughout the world, and its program of technical seminars provided industry with access to leading edge expertise. Industry has used this expertise to expand and increase sales and employment opportunities.

✓ ***to provide technical and pilot plant services on a fee-for-service basis***

FDC realized a 31% growth in fee-for-service activities, and through innovative strategies, was able to assist industry in project financing and risk sharing.

✓ ***to support the production of wholesome and safe food supplies in Manitoba***

FDC's wide range of 2000/2001 activities that supported the production of wholesome and safe food supplies includes:

- developing 14 new food products;
- offering 8 training seminars to the industry;
- offering pilot scale production facilities to 22 clients; and
- developing a strategic plan that will offer CFIA regulated pilot plant facilities to industry.

V-2 2000/2001 Milestones:

✓ ***Deliverables***

Deliverable	*1997/1998 Annual Baseline*	*1998/1999 Annual*	*1999/2000 Annual*	*2000/2001 Annual*	*Total*
New Food Products	10	17	35	14	76
New Employment Opportunities	10	50	46	29	135
Individuals Trained	166	246	624	378	1414
Process and Product Dev. Projects	26	65	194	35	320
Informational Enquiries	3023	3062	2983	697	9765
In-plant trouble shooting	10	10	14	2	36

✓ ***Implementation of grassroots technology transfer activities involving schools, colleges, home economists and industry;***

During 1999/2000 and continuing in 2000/2001, FDC worked with high school students from the ***Swan Valley Regional Secondary School*** to develop a Creole sauce. This project spanned four school semesters and included the:

- competition (writing a business plan) to select a type of food product for development
- development of the Creole sauce, at the School and FDC
- commercialization and distribution of the product

Students will utilize FDC's facilities for production of the sauce during 2001/2002.

✓ ***Recognition of the ongoing investment of the Province in the industry through establishment of the economic development contract at a level that will enable FDC to continue to provide services to Manitoba;***

FDC's annual economic development contract was set a the same level as the previous year $912.4, pending the completion of the strategic plan. FDC employed as many cost rationalization strategies as possible to try and operate under this constrained funding. However, as activities related to strategic planning required the dedication of a large portion of FDC's resources that would have otherwise been occupied with fee-for-service revenues, FDC still incurred an operating deficit. MAF received approval to provide additional grant funding against this deficit.

✓ ***restructuring of FDC's method of financing capital acquisitions to funding through fixed-rate, long-term debt as opposed to funding through internally generated revenues and short-term working capital authority***

FDC's Strategic Plan includes a five-year plan for financing capital acquisitions.

✓ ***Financial Results:***

FDC's Balance Sheet reflects the impact of the exercising of Norwest's option to purchase the assets of the Analytical Services. This was finalized during the fourth quarter, with FDC receiving a net gain on the sale of $40.6

FDC's current ratio continues to remain below 1.00 at a level of 0.40, which is slightly lower than the previous year's level of 0.44 (without 1999/2000 accounts receivable for deficit funding).

FDC's net loss of $29.9 includes supplementary funding of $99.5 received to cover the estimated operating deficit incurred as a result of previously mentioned business plan issues. FDC is proud to have achieved a 31% increase in fee-for-service revenues over 1999/2000, which has partially offset the continued effects of high costs associated with the state of its equipment and facility.

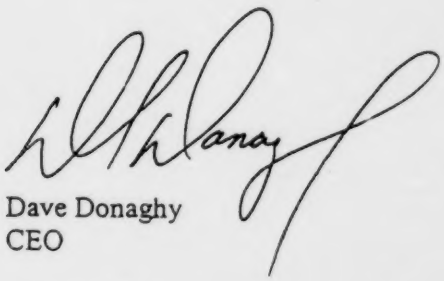
APPENDIX I. AUDITED FINANCIAL STATEMENTS

Responsibility for Financial Reporting

The Agency is responsible for preparing the financial statements and other financial information in the Annual Report. This responsibility includes maintaining the integrity and objectivity of financial data and the presentation of the Agency's financial position and results of operations in accordance with generally accepted accounting principles. The financial statements include amounts that are based on management's best estimates and judgements. The Agency's financial statements have been audited by Chapman and Verwey, independent external auditors.

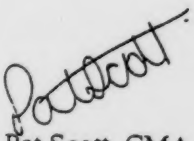
The Agency maintains a system of internal controls throughout its operation that provides reasonable assurance that transactions are authorized, properly recorded and reported, and that assets are safeguarded.

The Advisory Board meets regularly with management to review accounting practices, financial reporting and to discuss audit results. The auditors have free access to the Board, to discuss the results of their audit and their views on the adequacy of internal controls and the quality of financial reporting.



Dave Donaghy
CEO

May 10, 2001



Pat Scott, CMA
Acting General Manager

May 10, 2001

Financial Statements of

FOOD DEVELOPMENT CENTRE

Year ended March 31, 2001

Chapman & Verwey
CHARTERED ACCOUNTANTS

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R1N 1W8

AUDITORS' REPORT

To the Special Operating Agencies Financing Authority:

We have audited the balance sheet of Food Development Centre, an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba as at March 31, 2001 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2001 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Chapman & Verwey

Chartered Accountants

Portage la Prairie, Manitoba

May 10, 2001

FOOD DEVELOPMENT CENTRE

An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba
Balance Sheet
(In Thousands)

March 31, 2001, with comparative figures for 2000

	2001	2000
Assets		
Current assets:		
Cash	$ 2	$ 27
Accounts receivable (note 3)	181	194
Receivable from the Province of Manitoba	–	321
Prepaid expenses	31	42
	214	584
Capital assets (note 4)	326	456
Other assets	–	5
Cash held on deposit (note 5)	26	–
Severance pay receivable from Province (note 11)	41	83
	$ 607	$ 1,128
Liabilities and Deficiency in Assets		
Current liabilities:		
Working capital payable (note 6)	$ 400	$ 729
Accounts payable and accrued liabilities	64	114
Accrued vacation pay (note 7)	93	111
Severance pay liability	50	86
Unearned revenue	30	47
Current portion of capital lease obligation	–	30
	637	1,117
Capital lease obligation	–	11
Deficiency in assets:		
Deficit	(30)	–
Commitment (note 10)		
	$ 607	$ 1,128

See accompanying notes to financial statements.

FOOD DEVELOPMENT CENTRE

An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba
Statement of Operations and Deficit
(In Thousands)

Year ended March 31, 2001, with comparative figures for 2000

	2001	2000
Revenue:		
Contract - Province of Manitoba	$ 912	$ 912
Contract - National Research Council	43	57
Fee for service	235	542
Consulting and training services	104	106
Salary secondment	127	45
Lease income	33	3
Interest and other income	10	10
	1,464	1,775
Direct operating expenses:		
Lab supplies	47	103
Purchased services	85	105
Travel	66	83
Salaries	832	1,003
Postage, courier and telephone	38	58
Printing and stationery	19	19
Marketing	43	54
Library	51	45
	1,181	1,470
Administrative expenses	449	511
Loss from operations	(166)	(206)
Other income (expense):		
Write down of other assets	(5)	(5)
Gain on sale of capital assets	41	27
Deficit funding - Province of Manitoba	100	321
	136	343
Net (loss) income	(30)	137
Deficit, beginning of year (note 8)	–	(137)
Deficit, end of year	$ (30)	$ –

See accompanying notes to financial statements.

FOOD DEVELOPMENT CENTRE

An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba
Statement of Cash Flows
(In Thousands)

Year ended March 31, 2001, with comparative figures for 2000

	2001	2000
Cash provided by (used in):		
Operating activities:		
Net (loss) income for the year	$ (30)	$ 137
Items not involving cash:		
Amortization	78	86
Gain on sale of capital assets	(41)	(27)
Write down of other assets	5	5
	12	201
Net change in non-cash operating working capital:		
Accounts receivable	13	(25)
Cash held on deposit	(26)	–
Receivable from the Province of Manitoba	321	(321)
Severance pay receivable from Province	42	–
Prepaid expenses	11	14
Accounts payable and accrued liabilities	(50)	30
Accrued vacation pay	(18)	17
Severance pay liability	(36)	4
Unearned revenue	(17)	42
	240	(239)
	252	(38)
Financing activities:		
Decrease in capital lease obligation	(41)	(27)
Investing activities:		
Other asset purchases	–	(2)
Capital asset purchases	(49)	(200)
Proceeds from disposition of capital assets	142	27
	93	(175)
Net increase (decrease) in cash position	304	(240)
Cash position, beginning of year	(702)	(462)
Cash position, end of year	$ (398)	$ (702)

Cash position is comprised of the following amounts:

	2001	2000
Cash	$ 2	$ 27
Working capital payable	(400)	(729)
	$ (398)	$ (702)

See accompanying notes to financial statements.

FOOD DEVELOPMENT CENTRE

An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba
Notes to Financial Statements
(In Thousands)

Year ended March 31, 2001

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1. **Nature of organization:**

   Established in 1977, as part of the Manitoba Research Council, the Food Development Centre serves the agri-food industry by providing a wide range of services in the food, feed, and beverage industries. Food Development Centre offers food product development research, testing services and assistance with technology transfer to enable industry to efficiently and economically produce high quality foods.

   Effective April 1, 1996, the Food Development Centre was designated as a Special Operating Agency by regulation under The Special Operating Agencies Financing Authority Act made by the Lieutenant Governor in Council.

   The Agency is financed through the Special Operating Agencies Financing Authority (SOAFA). The Financing Authority has the mandate to hold and acquire assets required for and resulting from Agency operations. It finances the Agency through repayable loans and working capital advances. This financial framework enables the Agency to operate in a business-like manner according to public policy expectations.

   A Management Agreement with the Financing Authority assigns responsibility to the Agency to manage and account for the Agency-related assets and operations on behalf of the Financing Authority.

   The Food Development Centre is a part of the Department of Agriculture and Food under the general direction of a General Manager/Chief Executive Officer, and ultimately the policy direction of the Deputy Minister and Minister.

   The Food Development Centre remains bound by relevant legislation and regulations.

   The Food Development Centre is economically dependent on the Province of Manitoba, as it derives a significant portion of its revenue from the Province.

2. **Significant accounting policies:**

   (a) Management estimates:

   The preparation of financial statements in accordance with generally accepted accounting principles requires Management to make certain estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

   (b) Basis of reporting:

   The financial statements of the Agency are presented in accordance with generally accepted accounting principles.

2. Significant accounting policies (continued):

(c) Capital assets:

Capital assets assumed as part of the conversion to a Special Operating Agency, April 1, 1996, are stated at their estimated fair value as determined by the Province. Capital assets acquired subsequently are stated at cost. Amortization is provided using the following method and annual rates:

Equipment and sign	20% declining balance
Computer equipment	20% straight line
Leased equipment	20% declining balance

(d) Other assets:

Research and development costs are expensed as incurred.

(e) Revenue recognition:

Fee for service revenue is recognized on percentage of completion basis.

All funds received and due from the Province of Manitoba as at March 31, 2001 have been recognized as income in the current year.

3. Accounts receivable:

The accounts receivable balance is comprised of the following amounts:

	2001	2000
Trade accounts receivable	$ 243	$ 229
Allowance for doubtful accounts	(65)	(45)
Work in progress	3	10
	$ 181	$ 194

4. Capital assets:

	Cost	Accumulated Amortization	2001 Net Book Value	2000 Net Book Value
Equipment and sign	$ 418	$ 147	$ 271	$ 333
Computer hardware and software	138	83	55	63
Equipment under capital lease	–	–	–	60
	$ 556	$ 230	$ 326	$ 456

Included in capital assets is equipment with a net book value of $99,732, which is being leased out to clients of the Food Development Centre.

5. **Funds held on deposit:**

Effective April 1, 2000, the assets and liabilities of the analytical services division were sold to Norwest Soil Research Ltd. The Agency has received a $25,000 deposit from Norwest Soil Research Ltd. as part of the sales agreement. Under the agreement, Norwest must maintain certain levels of revenue from work performed in the Province of Manitoba for a period of five years from the effective date of the agreement. If they fail to meet these conditions, the deposit and accrued interest are forfeited to the Food Development Centre.

6. **Working capital payable:**

The Agency has an authorized line of working capital of $1,000 of which $400 was used as at March 31, 2001.

7. **Accrued vacation pay:**

The employees of the Food Development Centre are entitled to vacation pay in the current year, based on the prior year's employment. A provision for this liability has been recorded in the financial statements. The Food Development Centre has also accrued vacation pay for services rendered prior to the Agency receiving Special Operating Agency status for certain employees.

8. **Deficiency in assets:**

The Special Operating Agencies Financing Authority and the Manitoba Provincial Government entered into a Transfer Agreement respecting the transfer, from the Provincial Government to the Financing Authority, of the net assets required for the continuing operations of the Food Development Centre. As at April 1, 1996, the date of transfer, the liabilities assumed exceeded the value of the assets in the amount of $35. This amount was recorded as the deficit at April 1, 1996.

9. **Public Sector Compensation Disclosure:**

Compensation to employees in excess of $50 include the following individuals:

Utioh, Alphonsus - Manager Product and Process Development	$	80
Scott, Pat – Controller / General Manager		72
Schmulgen, Markus – Business Development Coordinator		58
Gao, Lei – Group leader Process Development		58

10. Commitment:

The Food Development Centre is obligated to make payments to Workers Compensation for an employee currently on disability. The total financial impact on the Centre is not determinable since the length of time the payments will be required is unknown.

11. Severance pay benefits:

Effective April 1, 1998, the Agency is recording accumulated severance pay benefits for its employees. Severance pay is determined by multiplying years of service, to a maximum of fifteen years, by the weekly salary at date of retirement, provided the employee reaches nine years of service and retires from the Agency. The estimate is based upon the method of calculation set by the Province of Manitoba.

The Province has accepted responsibility for the severance benefits accumulated by the Agency's employees to March 31, 1998. Accordingly, the opening severance pay liability balance as at April 1, 1998 of $83 was completely offset by a receivable from the Province. An adjustment was made during the current year to reduce the receivable from the Province to $41. There are no terms of repayment for this receivable, and the amount will remain fixed at $41.

12. Pension liability:

In accordance with the provisions of The Civil Service Superannuation Act, employees of the Agency are required to contribute to the Civil Service superannuation fund at prescribed rates for defined benefits. The Agency matches the employees' contributions to the Fund. Under this Act, Food Development Centre has no further pension liability. The amount contributed and expensed by the Agency in the current year was $35 (2000 - $42).

13. Financial instruments:

a) Credit risk:

The Agency is exposed to credit risk on the accounts receivable from its customers. The Agency does not have a significant exposure to any individual customer. An allowance for doubtful accounts has been established by the Agency, based upon factors surrounding the credit risk of specific customers, historical trends and other information.

b) Fair value:

Due to the short-term nature of all financial instruments, the carrying values as presented in the financial statements are reasonable estimates of fair value. Management has estimated fair value by reference to established financial markets. As is true for all estimates, actual fair value could differ from this estimate and, if so, any difference would be accounted for in the period in which it becomes known.

FOOD DEVELOPMENT CENTRE

An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba
Administrative Expenses
(In Thousands)

Year ended March 31, 2001, with comparative figures for 2000

	2001	2000
Advisory committee fees	$ 1	$ 1
Accreditation and licensing fees	3	8
Amortization	78	86
Professional fees	33	13
Bad debt expense	26	62
Occupancy expenses	196	192
Computer expenses	17	21
Equipment operating costs	30	26
Fees and memberships	6	9
Repairs and maintenance	16	18
Insurance	22	24
Interest	10	15
Interest on capital lease	–	5
Staff training	8	25
Staff relocation	3	6
	$ 449	$ 511

VARIANCE ANALYSIS

Contract – Province of MB	Deficit funding in the amount of $99,500 was received which resulted in total grant assistance during the fiscal year of $1,011,900. The requirement for additional grant assistance was due to increased expenses for various operating issues including additional legal fees associated with finalizing the sale of assets to Norwest Labs.
Fee-for-Service Revenue	FDC is pleased to report that it has experienced a 31% growth in fee-for-service revenues over 1999/2000 (excluding Analytical Services revenue of last year).
Fee-for-Service – NRC	National Research Council's IRAP program funds FDC's activities of a purely research and development nature. FDC experienced a decrease from last fiscal year and was under budget in this fiscal year due to more emphasis being placed on project work.
Rent/Contributed Services	This category is significantly over budget due to Norwest Labs renting space for the twelve months during the fiscal year. No funding was received for contributed services towards FDC's educational activities.
Consulting	Consulting fees representing the gross tuition costs for education seminars, and is 91% of budget. Leaf Rapids consulting fees matched the budgeted amount of $25,000 and was less than last year due to less billable time being spent on Leaf Rapids issues.
Lease Income	Lease income represents unused FDC equipment that has been leased to two separate clients under a long-term agreement.
Other Income	Other income includes interest income, cost recoveries from secondment of Gerry Offet to Intergovernmental Affairs and for administrative support supplied to Norwest Labs. This category represents a significant increase over budget.
Laboratory Supplies	Lab supplies is a function of fee-for-service revenue. The increased level reflects the increase in fee-for-service revenues as well as additional start-up costs required for a special project.

Purchased Services	Purchased services include the costs of sub-contract work to other laboratories, and has almost doubled the costs from last fiscal year. This is a result of work being contracted out to Norwest Labs, which was previously done in-house. In addition, it covers the costs of hiring technical consultants for specific projects.
Travel	Travel costs are 16% lower than last year due to decreased travel to courses.
Salaries	Include 2.3% GPI increase that all SOA's did not include in their initial budgets.
Salary - secondment	Includes costs (salary and expenses) for Gerry Offet, who is on secondment to Intergovernment Affairs.
Library Operating	Costs reflect the increase in purchasing due to a broader client base including Department of Agriculture and Food, and Food Science U of M students.
Amortization	Amortization has increased over last year due to the impact of the large equipment asset purchased last fiscal year. It is under budget due to the freeze on capital asset purchasing.
Audit and Legal	This is a significant increase from last year due to the additional professional fees associated with the final sale of Analytical Services to Norwest Labs.
Bad Debts	Bad debts expense includes allowance for doubtful and write-offs of un-collectable accounts receivable.
Real Estate Costs	Real Estate costs represent the cost of the building management agreement with Manitoba Government Services, which has increased by almost 20% over last year's agreement.
Equipment Operating Costs	Equipment operating costs are 15% below budget, but 46% over last year due to aging of equipment.
Building Repairs	Building repairs are consistent with 1999/2000 but over budget due to the age and condition of the facility.

Insurance	Insurance costs include professional liability insurance that FDC maintains for its professional staff.
Research & Development	Costs reflect the write-off of other assets, i.e., Salmonella Test Kit.
Interest on Long Term Debt	Interest on long-term debt is over budget but is 36% less than last year due to the deficit funding received which enhanced our cash position.
Staff Training	Costs are 64% less than last year, but are over this year's budget by 88%. This year's budget was reduced in an effort to balance the budget based on the reduced provincial funding. The long-term effect of this is a reduction in FDC's capabilities to provide leading-edge technology to industry.
Staff Relocation	Relocation costs includes expenses to relocate the Group Leader, Process Development and the Pilot Plant Technologist to Portage la Prairie.

ADVISORY BOARD MEMBERS

Don Zasada	***Deputy Minister of Manitoba Agriculture and Food with extensive experience in both provincial and Federal governments.***
Ken Einarson	***a former Vice President and General Manager of Simplot Canada, with a wealth of general business management expertise.***
Sid Gordon	***a successful mixed grain and livestock operator whose background in formulating farm policy includes chairing the Grains 2000 Task Force, with specific emphasis on the value-added segment of the report.***
Marjorie Jarvis	***a Manitoba small business owner who has been acknowledged for significant contributions to the Manitoba economy.***
Dave Donaghy	***Chief Executive Officer for FDC-a senior executive with significant agriculture and management experience.***

SECTION VII. HUMAN RESOURCES - STAFF PROFILES

Dave Donaghy, Agrologist, Ph.D.
C.E.O.

The Assistant Deputy Minister responsible for the Agricultural Development and Marketing Divison. He assumed the position of C.E.O.on April 11, 2000, following FDC's move to its's new parent department. Dave has twenty-six years of experience with the Department, having served in several technical positions, and also spent a short time in the agricultural chemical industry. A graduate of the University of Manitoba, Dave has a broad range of professional, business and government experience upon which to draw. His management and market development skills and research-oriented background are key factors in the future success of FDC within Manitoba Agriculture and Food.

Pat Scott, CMA
General Manager

As General Manager of FDC, Pat is responsible for the overall operation of the agency. Pat received her professional designation with the Society of management Accountants in 1985, Since that time, Pat has acquired extensive professional experience in all facets of financial and management accounting, especially in the area of financial management during times of change. Pat's experience includes controllership of Special Operating Agencies, profit and non-profit organizations. She has also served as treasurer on numerous boards of directors and has been involved with the Society of Management Accountants in their educational program.

Alphonsus Utioh, P. Eng.
Manager, Food Product and Process Development

Since completing his university studies with a Master's Degree in Chemical Engineering in 1986, Alphonsus has been working in the food industry, managing projects in the area of value-added processing of agricultural commodities. In addition to his management responsibilities, he works in a consulting capacity to liaise with the food processing industry and affiliated sectors in areas of new product/process development, process troubleshooting and technology transfer in development of fee-for-service work. Alphonsus has extensive experience in extraction of high-value components from horticultural crops, application of membrane technology in food processing, team building, and people and project management.

Gord Gherasim - Pilot Plant Technologist

Gord carries out routine repairs and periodic maintenance of all equipment support systems. A licensed Pasteurizer and Milk Receiver for the Province of Manitoba, Gord is heavily involved in client project work, in addition to his role as shipper, receiver and expediter.

Rene Duchesne – Pilot Plant Technologist

Rene is responsible for Quality Assurance and ensuring that all FDC's clients needs are met. Rene currently holds a Manitoba Pasteurizer and Milk Receivers Licenses. He is currently enrolled in a Power Engineering course which will be very beneficial to his position.

Linda Petriuk, B.Sc., B.A., M.L.I.S., - Librarian

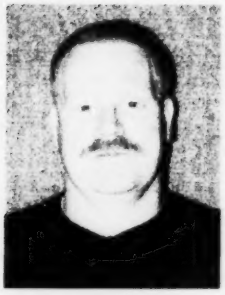
Linda specializes in scientific and technical information. Linda has expanded and developed the library into one of the primary sources of food related information in the country. Her expertise in sourcing information makes the library a valuable resource to staff, clients, government and industry. In addition, as a prominent member of the library community, Linda has been able to identify partnership possibilities and to encourage resource-sharing resulting in cost savings for the Province of Manitoba.

Audrey Shaw – Office Co-ordinator

Audrey co-ordinates office activities, serves as liaison with the property manager, and maintains the accounting general ledger. Audrey is currently enrolled in an accounting program and holds a certificate in human resource management.

Diane Miller – Business Development Assistant

Diane is responsible for first line client service both within the Centre and at trade shows and marketing events. Diane's extensive media experience enables her to provide a wide variety of assistance to the Business Development Manager.



Markus Schmülgen, P. Ag. B.Comm. M.Sc. Ag. Econ.
Business Development Manager

Markus has responsibility for all business development activities of FDC. This includes representation of the Agency through speaking engagements, media coverage, advertising material, educational seminars, and trade shows.

Jacqueline Barrett – Receptionist (Half-time)/Pilot Plant Assistant

Jacqueline was a member of FDC's Analytical Services Staff for three years. In April 2000, she accepted a position with FDC's Administration and Product and Process Development staff. Her medical secretary certificate and her experience in the food industry will bring much needed support to these two departments.

Alok Anand , M.Sc.- Process Development Consultant

Alok joined FDC in January 2000. He carries out research in the areas of process development and technology transfer. He also prepares project proposals and contracts for fee-for-service work and participates in regular pilot plan activities. His expertise is physical properties of food, texture and Rheology and super critical fluid extraction.

Leslie Hudson, B.Sc. – Product Development Consultant

As a product development consultant, Leslie works on the formulation and development of recipes and new products. She also assists in the implementation of the Hazard Analysis Critical Control Points. Leslie has had experience in research and quality control within the food industry.

Susan Ryan, B.Sc. - Acting Team Leader, Product Development

As the Acting Team Leader for Product Development, Susan provides leadership on fee-for-service projects, liaison with clients to assess their technical needs and prepares project proposals and contracts. Susan has experience in developing bakery and confectionery products. She also has extensive experience with product shelf life testing, nutrition and low fat food production.

Sarah Medina, B.Sc. - Product Development Consultant

As a product development consultant, Sarah works on the formulation and development of recipes and new products. She also assists in the implementation of the Hazard Analysis Critical Control Points. Prior to joining FDC, Sarah worked for a honey and juice plant in the areas of quality control, HACCP, and product development.